

POWELL COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2016

POWELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2016

	<u>Pages</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	10 - 11
Statement of Activities.....	12 - 13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Fund	18
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund	20
Statement of Net Position – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Position	22
Notes to the Basic Financial Statements	23 - 47
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	48

POWELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2016

	<u>Pages</u>
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	49
Schedules of Employer’s Share of Net Pension Liability and Schedules of Employer Contributions.....	50
Other Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Non major Special Revenue Fund.....	51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non major Special Revenue Fund.....	52
Combining Balance Sheet – Other Non major Governmental Funds	53
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Non major Governmental Funds	54
Statement of Revenues, Expenditures and Changes in Fund Balance – Powell County High School Activity Fund.....	55 - 56
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Middle and Elementary School Activity Funds	57
Schedule of Expenditures of Federal Awards.....	58 - 60
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61 - 62
Independent Auditor’s Report on Compliance for Each Major Program and Internal Control Over Compliance Required by the Uniform Guidance	63 - 64
Summary Schedule of Prior Audit Findings.....	65
Schedule of Findings and Questioned Costs	66
Management Letter	67 - 68

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Powell County Board of Education
Stanton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Powell County School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension supplemental reporting on pages 4-9 and 47-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Powell County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of the Powell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Powell County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 27, 2016

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2016

As management of the Powell County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investment accounts, fiduciary funds and funds 1 and 2 deficit balances of \$216,331 was \$1,477,507 for which \$366,385 is committed to capital outlay and construction projects. The ending cash balance, was \$3,819,199 including fiduciary and trust funds for which \$3,098,869 was committed to construction projects.
- Interest revenue totaled \$3,168 for the year ended and for the prior year the total interest revenue was \$3,326.
- Total long-term principal reductions for the fiscal year were \$1,068,931. This includes SFCC participation.
- The District recognized two new transportation vehicles having a total cost of \$223,188 financed by KISTA.
- The District Finance Corporation issued \$3,765,000 in energy conservation bonds during the fiscal year to finance construction and renovations at Powell County Middle School. Subsequent to year end, an additional \$4,120,000 in school building revenue bonds for Powell County Middle School construction and renovations were issued.
- Subsequent to year end, the District Finance Corporation acquired \$960,000 in refunding revenue bonds in order to retire July 1, 2008 revenue bonds of the District.
- For the current fiscal year ended, total general fund revenue was \$18,037,805 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. This total included \$3,797,910 in state on behalf payments. Excluding transfers and state on behalf payments, total general fund expenditures were \$14,687,823.
- For the prior fiscal year ended, total general fund revenue was \$17,805,810 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. This total included \$3,835,117 in state on behalf payments. Excluding transfers and state on behalf payments, total general fund expenditures were \$14,601,489.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,447,367.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding and the aforementioned net pension liability. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, the depreciation of capital assets and the accumulation of pension resources.

Net positions for the years ended June 30, 2016 and 2015

Following are comparisons of net position:

	At June 30,	
	2016	2015
Current assets	4,911,460	1,827,959
Noncurrent assets	19,660,983	18,858,693
Deferred outflows of resources	1,238,760	660,446
<u>Total assets and deferred outflows of resources</u>	<u>25,811,203</u>	<u>21,347,098</u>
Current liabilities	2,864,429	1,910,711
Noncurrent liabilities	20,833,230	16,577,120
Deferred inflows of resources	666,177	490,000
<u>Total liabilities and deferred inflows of resources</u>	<u>24,363,836</u>	<u>18,977,831</u>
Net position		
Investment in capital assets (net of debt)	3,446,937	5,642,304
Restricted	2,877,782	975,725
Unrestricted (deficit)	(4,877,352)	(4,248,762)
<u>Total net position</u>	<u>1,447,367</u>	<u>2,369,267</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>25,811,203</u>	<u>21,347,098</u>

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- Current assets reflect increases in cash due to bond proceeds of \$3,765,000.
- Current liabilities reflect increases in cash deficit and accounts payable balances, \$742,068.
- Noncurrent liabilities increases include recognition of long term debt proceeds, energy conservation grant, \$3,765,000.
- Net CERS unfunded pension liability recognized by the District at June 30, 2016 was \$5,901,516.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2016:

	<u>Budget 2016</u>	<u>Actual 2016</u>	<u>Variance I/(D)</u>
Revenues:			
Local revenue sources	2,756,880	2,804,820	47,940
Federal and state revenue sources	<u>13,709,688</u>	<u>15,232,985</u>	<u>1,523,297</u>
<u>Total revenues</u>	<u>16,466,568</u>	<u>18,037,805</u>	<u>1,571,237</u>
Expenses:			
Instruction	9,890,820	11,247,797	(1,356,977)
Student support services	666,250	728,233	(61,983)
Instructional support	610,216	681,016	(70,800)
District administration	1,100,709	1,199,515	(98,806)
School administration	1,100,755	1,142,467	(41,712)
Business support services	338,993	382,080	(43,087)
Plant operations and management	1,813,551	1,787,113	26,438
Student transportation	991,222	991,113	109
Debt service	97,218	5,993	91,225
Contingencies	<u>411,093</u>	<u>97,218</u>	<u>313,875</u>
<u>Total expenses</u>	<u>17,020,827</u>	<u>18,262,545</u>	<u>(1,241,718)</u>
<u>Excess (deficiency) of revenue over expense</u>	<u>(554,259)</u>	<u>(224,740)</u>	<u>329,519</u>

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

Budget and actual state revenue variances are primarily due to adjustments related to on behalf payments.

- Contingencies reflected in the current year meet regulatory requirements.

The following table presents a comparison of government wide revenue and expense for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Revenues:		
Local revenue sources	3,309,488	3,077,309
State revenue sources	19,995,660	19,154,593
Federal revenue	<u>3,987,176</u>	<u>3,743,764</u>
<u>Total revenues</u>	<u>27,292,324</u>	<u>25,975,666</u>
Expenses:		
Instruction	16,212,221	14,679,739
Student support services	884,873	884,757
Instructional support	1,773,934	1,685,679
District administration	1,519,055	1,429,549
School administration	1,349,213	1,218,642
Business support services	443,227	358,883
Plant operations and management	2,101,193	2,194,927
Student transportation	1,446,694	1,522,325
Food services operation	1,804,726	1,572,797
Community services operations	347,060	309,083
Interest on long-term debt	<u>332,028</u>	<u>399,976</u>
<u>Total expenses</u>	<u>28,214,224</u>	<u>26,256,357</u>
<u>Excess (Deficiency) of revenue over expense</u>	<u>(921,900)</u>	<u>(280,691)</u>

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- Adjusting entries to reflect pension expense for GASB 68 purposes are reflected as an increase in fiscal year 2016 operating expenses.
- Revenue sources include local property and utility taxes, interest revenue, food service revenue and local, state and federal grant funding resources.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal agencies operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district prior year budget included \$411,093 in contingency (2.41%). Management has established reserves for sick leave. The District continually monitors non-monetary factors that may have an impact on the District's budget including new legislation, economic changes, and shifts in population.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 663-3300.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITIONAt June 30, 2016

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Assets:			
- Current assets -			
Cash and cash equivalents	3,113,785	468,539	3,582,324
Investments	500,000	-	500,000
Accounts receivable:			
Taxes - current	120,093	-	120,093
Taxes - delinquent	8,972	-	8,972
Other	35,155	-	35,155
Intergovernmental - indirect federal	617,633	9,906	627,539
Inventories	<u>-</u>	<u>37,377</u>	<u>37,377</u>
<u>Total current assets</u>	<u>4,395,638</u>	<u>515,822</u>	<u>4,911,460</u>
- Noncurrent assets -			
Capital assets			
Nondepreciable capital assets	2,549,779	-	2,549,779
Depreciable capital assets, net	<u>17,000,014</u>	<u>111,190</u>	<u>17,111,204</u>
Capital assets, net	<u>19,549,793</u>	<u>111,190</u>	<u>19,660,983</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	82,153	-	82,153
Deferred outflows - pension resources	<u>1,060,955</u>	<u>95,652</u>	<u>1,156,607</u>
<u>Total deferred outflows of resources</u>	<u>1,143,108</u>	<u>95,652</u>	<u>1,238,760</u>
<u>Total assets and deferred outflows of resources</u>	<u>25,088,539</u>	<u>722,664</u>	<u>25,811,203</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION (Continued)

At June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Liabilities:			
- Current liabilities -			
Cash deficit	613,405	-	613,405
Accounts payable	449,561	-	449,561
Current portion of bond/lease obligations	1,160,864	-	1,160,864
Current portion - KSBIT obligation	67,903	-	67,903
Interest payable	387,140	-	387,140
Unearned revenues - governmental sources	<u>185,556</u>	<u>-</u>	<u>185,556</u>
<u>Total current liabilities</u>	<u>2,864,429</u>	<u>-</u>	<u>2,864,429</u>
- Noncurrent liabilities -			
Accrued sick leave payable	189,987	-	189,987
Long-term portion of KSBIT obligation	75,685	-	75,685
Noncurrent portion of long-term debt	14,666,042	-	14,666,042
Net pension liability	<u>5,413,460</u>	<u>488,056</u>	<u>5,901,516</u>
<u>Total noncurrent liabilities</u>	<u>20,345,174</u>	<u>488,056</u>	<u>20,833,230</u>
<u>Total liabilities</u>	<u>23,209,603</u>	<u>488,056</u>	<u>23,697,659</u>
Deferred Inflow of Resources			
Deferred inflows - pension resources	<u>611,084</u>	<u>55,093</u>	<u>666,177</u>
<u>Total liabilities and deferred inflows of resources</u>	<u>23,820,687</u>	<u>543,149</u>	<u>24,363,836</u>
Net Position:			
Net investment in capital assets	3,335,747	111,190	3,446,937
Restricted for:			
Capital projects	2,742,491	-	2,742,491
Other	66,966	68,325	135,291
Unrestricted (deficit)			
Pension resources	(4,963,589)	-	(4,963,589)
Unrestricted - other	<u>86,237</u>	<u>-</u>	<u>86,237</u>
<u>Total net position</u>	<u>1,267,852</u>	<u>179,515</u>	<u>1,447,367</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u><u>25,088,539</u></u>	<u><u>722,664</u></u>	<u><u>25,811,203</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2016

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instruction	16,212,221	-	4,835,565	-
Support services:				
Student	884,873	-	203,788	-
Instructional staff	1,773,934	-	1,003,681	-
District administration	1,519,055	-	266,643	-
School administration	1,349,213	-	264,950	-
Business support	443,227	-	46,375	-
Plant operation & management	2,101,193	-	105,884	-
Student transportation	1,446,694	-	215,200	-
Community services operations	347,060	-	291,786	-
Interest on long-term debt	332,028	-	-	-
<u>Total governmental activities</u>	<u>26,409,498</u>	<u>-</u>	<u>7,233,872</u>	<u>-</u>
- Business-type Activities -				
Food service	1,745,277	120,345	1,644,085	-
<u>Total business-type activities</u>	<u>1,745,277</u>	<u>120,345</u>	<u>1,644,085</u>	<u>-</u>
<u>Total primary government</u>	<u>28,154,775</u>	<u>120,345</u>	<u>8,877,957</u>	<u>-</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2016

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	(11,376,656)	-	(11,376,656)
	(681,085)	-	(681,085)
	(770,253)	-	(770,253)
	(1,252,412)	-	(1,252,412)
	(1,084,263)	-	(1,084,263)
	(396,852)	-	(396,852)
	(1,995,309)	-	(1,995,309)
	(1,231,494)	-	(1,231,494)
	(55,274)	-	(55,274)
	<u>(332,028)</u>	<u>-</u>	<u>(332,028)</u>
	<u>(19,175,626)</u>	<u>-</u>	<u>(19,175,626)</u>
	<u>-</u>	<u>19,153</u>	<u>19,153</u>
	<u>-</u>	<u>19,153</u>	<u>19,153</u>
	<u>(19,175,626)</u>	<u>19,153</u>	<u>(19,156,473)</u>
General revenues and transfers:			
Taxes	2,995,471	-	2,995,471
Investment earnings	3,149	19	3,168
State and formula grants	15,104,879	-	15,104,879
Miscellaneous	131,040	15	131,055
Transfers in (out)	<u>59,449</u>	<u>(59,449)</u>	<u>-</u>
<u>Total general revenues and transfers</u>	<u>18,293,988</u>	<u>(59,415)</u>	<u>18,234,573</u>
Change in net position	(881,638)	(40,262)	(921,900)
Net position - beginning (restated)	<u>2,149,490</u>	<u>219,777</u>	<u>2,369,267</u>
Net position - ending	<u><u>1,267,852</u></u>	<u><u>179,515</u></u>	<u><u>1,447,367</u></u>

See notes to financial statements

POWELL COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2016

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Assets:					
Cash and cash equivalents	-	-	3,098,869	14,916	3,113,785
Investments	500,000	-	-	-	500,000
Accounts receivable:					
Taxes - current	120,093	-	-	-	120,093
Taxes - delinquent	8,972	-	-	-	8,972
Other	35,155	-	-	-	35,155
Intergovernmental - indirect federal	<u>85,424</u>	<u>532,209</u>	<u>-</u>	<u>-</u>	<u>617,633</u>
 <u>Total assets</u>	 <u>749,644</u>	 <u>532,209</u>	 <u>3,098,869</u>	 <u>14,916</u>	 <u>4,395,638</u>
Liabilities:					
Cash deficit	264,655	348,750	-	-	613,405
Accounts payable	64,988	183	384,390	-	449,561
Unearned revenues - governmental sources	<u>-</u>	<u>183,276</u>	<u>-</u>	<u>2,280</u>	<u>185,556</u>
 <u>Total liabilities</u>	 <u>329,643</u>	 <u>532,209</u>	 <u>384,390</u>	 <u>2,280</u>	 <u>1,248,522</u>
Fund Balance:					
Restricted - sick leave	66,115	-	-	-	66,115
Restricted for future construction/outlay	-	-	2,714,479	12,636	2,727,115
Committed - site based carryforward	15,376	-	-	-	15,376
Assigned - purchase obligations	851	-	-	-	851
Unassigned fund balance	<u>337,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>337,659</u>
 <u>Total fund balance</u>	 <u>420,001</u>	 <u>-</u>	 <u>2,714,479</u>	 <u>12,636</u>	 <u>3,147,116</u>
 <u>Total liabilities and fund balance</u>	 <u>749,644</u>	 <u>532,209</u>	 <u>3,098,869</u>	 <u>14,916</u>	 <u>4,395,638</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2016

Total fund balance per fund financial statements	3,147,116
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	19,549,793
Deferred outflows on refunded debt and pension resources are reported in government wide financial statements but not in fund financial statements.	1,060,955
Deferred savings on refunding bonds are not reported in the fund financial statements	82,153
Long-term sick leave payable is not recognized in the fund financial statements.	(189,987)
Certain liabilities (such as bonds payable and KSBIT payable are not reported in this fund financial statement because they are not due and payable, and related interest, but are presented in the statement of net position.	(16,357,634)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	(5,413,460)
Deferred inflows of resources related to pensions are not reported in the fund financial statements.	<u>(611,084)</u>
Net position for governmental activities	<u><u>1,267,852</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:					
From local sources:					
Taxes	2,726,008	-	-	269,463	2,995,471
Earnings on investments	3,146	3	-	-	3,149
Other local revenue	75,666	9,193	-	41,246	126,105
Intergovernmental - state	14,894,742	1,190,706	-	1,161,392	17,246,840
Intergovernmental - indirect federal	338,243	2,185,091	-	-	2,523,334
<u>Total revenues</u>	<u>18,037,805</u>	<u>3,384,993</u>	<u>-</u>	<u>1,472,101</u>	<u>22,894,899</u>
Expenditures:					
Instructional	11,247,797	2,029,213	-	28,769	13,305,779
Student support services	728,233	35,365	-	-	763,598
Staff support services	681,016	836,533	-	12,477	1,530,026
District administration	1,199,515	109,640	-	-	1,309,155
School administration	1,142,467	21,409	-	-	1,163,876
Business support	382,080	-	-	-	382,080
Plant operations and management	1,787,113	-	-	-	1,787,113
Student transportation	1,214,301	112,016	-	-	1,326,317
Community service activities	5,993	291,786	-	-	297,779
Building improvements	-	-	1,404,270	-	1,404,270
Debt service:					
Principal	93,931	-	-	975,000	1,068,931
Interest and fees	3,287	-	-	305,952	309,239
<u>Total expenditures</u>	<u>18,485,733</u>	<u>3,435,962</u>	<u>1,404,270</u>	<u>1,322,198</u>	<u>24,648,163</u>
Excess (deficit) of revenues over expenditures	<u>(447,928)</u>	<u>(50,969)</u>	<u>(1,404,270)</u>	<u>149,903</u>	<u>(1,753,264)</u>
Other financing sources (uses):					
Operating transfers in	209,352	142,232	-	857,352	1,208,936
Operating transfers out	(50,969)	(91,263)	-	(1,007,255)	(1,149,487)
Bond proceeds	223,188	-	3,765,000	-	3,988,188
Sale of equipment	4,935	-	-	-	4,935
<u>Total other financing sources (uses)</u>	<u>386,506</u>	<u>50,969</u>	<u>3,765,000</u>	<u>(149,903)</u>	<u>4,052,572</u>
Net Change in Fund Balance	(61,422)	-	2,360,730	-	2,299,308
Fund balance - July 1, 2015	<u>481,423</u>	<u>-</u>	<u>353,749</u>	<u>12,636</u>	<u>847,808</u>
Fund balance - June 30, 2016	<u><u>420,001</u></u>	<u><u>-</u></u>	<u><u>2,714,479</u></u>	<u><u>12,636</u></u>	<u><u>3,147,116</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2016

Net change in total fund balances per fund financial statements	2,299,308
Amounts reported for governmental activities in the statement of activities differences:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlay transactions reported in fund financial statements	1,556,431
Depreciation recorded in government wide financial statements	(803,717)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	(10,495)
Accrued sick leave is recognized when incurred in the fund financial statements.	13,825
Amortization expense on refunded debt is not recognized in the fund financial statements.	(12,294)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	1,068,931
Bond proceeds are recognized as revenues in the fund financial statements but are increases in liabilities in the statement of net position.	(3,988,188)
Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. In addition, adjustments to pension expense in the government wide fund financial statements is a result of actuarial determinations	<u>(1,005,439)</u>
Change in net position of governmental activities	<u><u>(881,638)</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

At June 30, 2016

	<u>Food Service Fund</u>
Assets:	
- Current Assets -	
Cash and cash equivalents	468,539
Accounts receivable:	
Intergovernmental - indirect federal	9,906
Inventories	<u>37,377</u>
<u>Total current assets</u>	<u>515,822</u>
- Noncurrent Assets -	
Depreciable capital assets	613,808
Less: accumulated depreciation	<u>(502,618)</u>
<u>Total noncurrent assets</u>	<u>111,190</u>
Deferred Outflows of Resources	
Deferred outflows - pension resources	<u>95,652</u>
<u>Total assets and deferred outflow of resources</u>	<u><u>722,664</u></u>
Liabilities:	
- Current Liabilities -	
Accounts payable	<u>-</u>
<u>Total current liabilities</u>	<u>-</u>
- Noncurrent liabilities -	
Net pension liability	<u>488,056</u>
<u>Total liabilities</u>	<u>488,056</u>
Deferred Inflow of Resources	<u>55,093</u>
Net position:	
Net investment in capital assets	111,190
Restricted	<u>68,325</u>
<u>Total net position</u>	<u>179,515</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u><u>722,664</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDFor the Year Ended June 30, 2016

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	120,345
Other local revenue	15
Federal grants	1,463,842
State grants	109,491
Donated commodities	<u>70,752</u>
<u>Total operating revenues</u>	<u>1,764,445</u>
Operating expense:	
Salaries and wages	694,097
Contract services	41,520
Materials and supplies	991,963
Depreciation	11,822
Other operating expenses	<u>5,875</u>
<u>Total operating expenses</u>	<u>1,745,277</u>
<u>Operating income (loss)</u>	<u>19,168</u>
Nonoperating Revenue/(Expense):	
Transfers out	(59,449)
Interest income	<u>19</u>
<u>Total nonoperating revenue/(expense)</u>	<u>(59,430)</u>
<u>Change in net position</u>	<u>(40,262)</u>
Net position, July 1, 2015 (restated)	<u>219,777</u>
Net position, June 30, 2016	<u><u>179,515</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

For the Year Ended June 30, 2016

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom activities	120,360
Federal and state grants	1,477,901
Cash paid to/for:	
Employees	(599,781)
Supplies/Contractual	(962,911)
Other activities	<u>(5,875)</u>
<u>Net cash provided (used) by operating activities</u>	<u>29,694</u>
Cash flows from capital and related financing activities:	
Fixed asset acquisitions	<u>(61,398)</u>
Cash flows from investing activities:	
Interest income	<u>19</u>
Cash flows from financing activities:	
Pension liabilities and related deferrals	90,646
Indirect cost transfers	<u>(59,449)</u>
<u>Net cash provided (used) by financing activities</u>	<u>31,197</u>
 Net increase (decrease) in cash	 (488)
Cash, beginning of year	<u>469,027</u>
Cash, end of year	<u><u>468,539</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operations:	
Operating income (loss)	19,168
Adjustments to reconcile operating income to cash provided (used) by operating activities:	
Depreciation	11,822
Changes in current assets/liabilities:	
Accounts receivable	(1,116)
Accounts payable	<u>(180)</u>
<u>Net cash provided (used) by operating activities</u>	<u><u>29,694</u></u>

Note – Non-cash transactions include State on-behalf payments of \$94,316 and donated commodities of \$70,752.

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION - FIDUCIARY FUNDSAt June 30, 2016

	Activity <u>Funds</u>	Scholarship <u>Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	172,358	177,922	350,280
Receivables	<u>6,381</u>	<u>435</u>	<u>6,816</u>
<u>Total assets</u>	<u>178,739</u>	<u>178,357</u>	<u>357,096</u>
Liabilities:			
Due to individual student activity account funds	<u>178,739</u>	<u>-</u>	<u>178,739</u>
<u>Total liabilities</u>	<u>178,739</u>	<u>-</u>	<u>178,739</u>
Net Position:			
Permanently restricted	-	167,803	167,803
Restricted - other spendable	<u>-</u>	<u>10,554</u>	<u>10,554</u>
<u>Total net position</u>	<u>-</u>	<u>178,357</u>	<u>178,357</u>
<u>Total liabilities and net position</u>	<u>178,739</u>	<u>178,357</u>	<u>357,096</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF CHANGES IN FIDUCIARY NET POSITIONFor the Year Ended June 30, 2016

	<u>Scholarship Fund</u>
Additions:	
Interest income	3,233
Contributions/Donations	<u>1,000</u>
 Total Additions	 <u>4,233</u>
Deductions:	
Scholarship payments	<u>5,000</u>
 Change in net position	 (767)
 Net position, beginning of year	 <u>179,124</u>
 Net position, end of year	 <u><u>178,357</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Powell County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Powell County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Powell County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Powell County School District Finance Corporation – The Powell County, Kentucky, Board of Education resolved to authorize the establishment of the Powell County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Powell County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.
- (C) The District Wide Activity Multi Year fund, a special revenue fund, accounts for student activities on a district wide basis primarily for instruction and instructional staff support service purposes.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

The Herbert and Hattie Profitt scholarship fund is a permanent type endowment fund. The interest earned is used for scholarships to Powell County High School students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$.401 per \$100 valuation for real property, \$.401 per \$100 valuation for business personal property and \$.502 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District capitalization threshold policies are five thousand dollars for equipment, furniture and fixtures. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past five years' experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2016.

The District has set aside a board approved reserve in the amount of \$66,115 for accumulated sick leave.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with and original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections*—2012; an Amendment of GASB Statements No. 10 and No. 62, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for the fiscal year 2013-2014 financial statements.

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statement presentations.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68 improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The District implemented the new accounting and disclosure requirements for the fiscal year ended June 30, 2015.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS

At year-end, the bank balance of the District’s cash, cash equivalents and short- term investments was \$5,644,864 and the book balance was \$3,819,199. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At June 30, 2016 the District’s cash and cash equivalents were insured by FDIC in the amount of \$250,000 for all accounts. The balance of cash was collateralized with securities held in the financial institution’s name and pledged to the District. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District’s investments in a single issuer. Eighty-six percent of the organization’s cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect district funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash, cash equivalents and investments at June 30, 2016 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
<u>Whitaker Bank:</u>		
General Checking Account	4,797,986	2,979,039
Revolving Fund	116	-
Investments - Annuities	500,000	500,000
Investment - Trust Agency Fund	167,803	167,803
Bowen Elementary Activity	9,507	9,507
Clay City Elementary Activity	8,574	8,463
Powell County High School Activity	118,977	113,923
Powell County Middle School Activity	27,745	27,499
Stanton Elementary Activity	<u>14,156</u>	<u>12,966</u>
<u>Total</u>	<u>5,644,864</u>	<u>3,819,200</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District held the following investments at June 30, 2016:

<u>Investment Type</u>	<u>Classification</u>	<u>Fund</u>	<u>Carrying Value</u>
Guggenheim Annuity Contract	Level 2	Fiduciary	167,803
Athene Annuity Contract	Level 2	General	250,000
North American Co Annuity Contract	Level 2	General	<u>250,000</u>
Total Investments			<u>667,803</u>

The Guggenheim Annuity Contract is a permanent type endowment fund. The interest earned is used for student scholarships.

The Athene and North American Annuity Contracts were invested on June 30, 2016 transferred from certificates of deposits and MMA accounts.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Rates</u>
Refunding Issue 2002	2,465,000	2.50% - 3.90%
August 2006	3,290,000	3.90% - 3.90%
2nd Series of 2008	1,275,000	3.35% - 4.40%
KISTA 2008 Series	601,776	2.40% - 4.00%
KISTA 2009 R	75,416	1.00% - 3.30%
Refunding Issue 2010	4,050,000	1.50% - 3.00%
Revenue Series 2013	5,545,000	1.50% - 3.00%
Refunding Issue March 2015	2,685,000	2.00% - 2.40%
KISTA Series March 2015	219,879	1.00% - 2.625%
KISTA Series March 2016	223,188	2.00% - 2.625%
Energy Conservation Revenue Bonds May 2016	3,765,000	2.00% - 3.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Powell County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The Powell County School District Finance Corporation acquired \$3,765,000 in Energy Conservation Bond financing in order to finance Middle School construction and renovation.

The financial statements also recognize new long term debt to finance acquisition of two bus unit’s principal amount totaling \$223,188 for a ten year period.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2016, for debt service (principal and interest) are as follows:

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

	<u>Powell County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016 - 17	848,814	285,240	312,050	101,900	1,548,004
2017 - 18	772,095	265,761	317,711	96,243	1,451,810
2018 - 19	737,560	248,200	322,839	91,143	1,399,742
2019 - 20	761,378	230,346	329,662	84,273	1,405,659
2020 - 21	791,693	212,053	327,550	77,392	1,408,688
2021 - 26	3,117,358	810,141	1,483,196	292,077	5,702,772
2026 - 31	2,319,958	458,100	1,040,042	146,081	3,964,181
2031 - 36	1,928,047	163,619	416,953	18,856	2,527,475
<u>Totals</u>	<u>11,276,903</u>	<u>2,673,460</u>	<u>4,550,003</u>	<u>907,965</u>	<u>19,408,331</u>

Following are changes in long-term debt:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
2002 Refunding Series	615,000	-	(305,000)	310,000	310,000
2006 Series	180,000	-	(90,000)	90,000	90,000
2008 2nd Series	1,075,000	-	(35,000)	1,040,000	35,000
2008 KISTA	175,518	-	(62,685)	112,833	55,521
2009 KISTA R	37,252	-	(7,412)	29,840	7,225
2010 Refunding Series	2,675,000	-	(355,000)	2,320,000	365,000
2013 Revenue Series	5,245,000	-	(150,000)	5,095,000	150,000
2015 Refunding Series	2,685,000	-	(40,000)	2,645,000	30,000
2015 KISTA	219,879	-	(23,834)	196,045	23,918
2016 KISTA	-	223,188	-	223,188	24,200
2016 Energy Conservation Bonds	-	3,765,000	-	3,765,000	70,000
<u>Total</u>	<u>12,907,649</u>	<u>3,988,188</u>	<u>(1,068,931)</u>	<u>15,826,906</u>	<u>1,160,864</u>

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	1,220,539	-	-	1,220,539
Construction work in progress	4,633,283	1,329,240	4,633,283	1,329,240
Vehicles not placed in service	211,498	-	211,498	-
Total capital assets, not being depreciated:	6,065,320	1,329,240	4,844,781	2,549,779
Capital assets, being depreciated:				
Land improvements	1,067,294	-	-	1,067,294
Buildings and improvements	23,648,786	4,521,856	-	28,170,642
Technology equipment	611,244	6,599	-	617,843
Vehicles	2,513,073	426,638	-	2,939,711
General equipment	812,862	116,879	11,895	917,846
Total capital assets being depreciated	28,653,259	5,071,972	11,895	33,713,336
Totals at historical cost	34,718,579	6,401,212	4,856,676	36,263,115
<u>Governmental Activities</u>				
Less: accumulated depreciation				
Land improvements	1,030,946	6,741	-	1,037,687
Buildings and improvements	11,863,965	559,160	-	12,423,125
Technology equipment	370,808	74,054	11,895	432,967
Vehicles	2,052,712	141,955	-	2,194,667
General equipment	603,069	21,807	-	624,876
Total accumulated depreciation	15,921,500	803,717	11,895	16,713,322
Governmental Activities				
Capital Assets - Net	18,797,079	5,597,495	4,844,781	19,549,793
<u>Business-Type Activities</u>				
Food service equipment	543,610	61,398	-	605,008
Vehicles	8,800	-	-	8,800
Totals at historical cost	552,410	61,398	-	613,808
Less: accumulated depreciation				
Food service and equipment	481,996	11,822	-	493,818
Vehicles	8,800	-	-	8,800
Total accumulated depreciation	490,796	11,822	-	502,618
Business-Type Activities				
Capital Assets - Net	61,614	49,576	-	111,190

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instruction	627,293
Instructional staff support	784
District administration	1,708
School administration	422
Business support	401
Plant operations and maintenance	26,103
Student transportation	145,290
Community services	<u>1,716</u>
Total depreciation expense -	
Government functions	<u><u>803,717</u></u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements provided by the District for equipment provide the minimum future rental payments as of June 30, 2016, as follows:

2016 - 17	24,397
2017 - 18	11,167
2018 - 19	10,372
2019 - 20	5,201
2020 - 21	3,500
and thereafter	<u>-</u>
<u>Total</u>	<u><u>54,637</u></u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

General Information about the Pension Plan

Plan Description – Teaching-certified employees of the Powell County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)-a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

Benefits Provided – For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries for members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)**Medical Insurance Plan**

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-employment healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

At June 30, 2016, Powell County School District did not report a net pension liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its KTRS proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

State's proportionate share of the	
net pension liability associated with the	
District	\$ <u>71,163,841</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .3058% for KTRS.

For the year ended June 30, 2016, the District's government-wide financial statements reported KTRS pension expense of \$4,040,340 and revenue of \$1,471,763 for support provided by the State. At June 30, 2016, The District recognized no deferred outflows of resources and no deferred inflows of resources related to KTRS.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Significant assumptions used in the KTRS valuation were as follows:

- Investment rate of return – 7.5%, net of pension plan investment expense, including inflation.
- Projected salary increases – 4.00 – 8.20%, including inflation
- Inflation rate – 3.5%
- Municipal bond Index Rate – 3.82%
- Single Equivalent Interest Rate – 4.88%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS' investment consultants is summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	100.0%	

Discount rate – The discount rate used to measure the total pension liability as of the measurement date was 4.88%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

The following table presents the net pension liability –proportionate share, calculated using the discount rate of 4.88%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.88%) or 1 percentage point higher (5.88%) than the current rate (in thousands):

	Decrease (3.88%)	Discount Rate (4.88%)	Increase (5.88%)
Commonwealth's proportionate share of			
District pension liability	\$ 90,849,467	\$ 71,163,841	\$ 56,758,950

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued KTRS financial report.

County Employees Retirement System

Plan Description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (505) 564-4646 or at <https://kyret.ky.gov>.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 17.06% of the employee’s total compensation subject to contributions.

At June 30, 2016, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used was based on an actuarial valuation as of June 30, 2015. At June 30, 2016 the District’s proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2015 was .1373%.

District's proportionate share of the net	
CERS pension liability	\$ 5,901,516

For the year ended June 30, 2016, the District recognized pension expense of \$409,810. The District reported current year deferred outflows of resources at June 30, 2016 in the amount of \$746,797. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The District allocated net pension liability among its governmental funds and proprietary funds based on estimated payroll for each fund type.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$490,000. This will be recognized as pension expense as follows:

Year	Total	
2016	98,000	
2017	98,000	
2018	98,000	
2019	98,000	
2020	98,000	
	<u>490,000</u>	
	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	49,044	-
Changes of assumptions	595,103	-
Net difference between projected and actual earnings on pension plan investments	52,902	-
Changes in proportion and differences between District contributions and proportionate share of contributions	49,748	-
District contributions subsequent to the measurement date	-	-
Total	<u>746,797</u>	<u>-</u>

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2015
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Nominal Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and Pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 7.50% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of net pension liability	\$ 7,534,017	\$ 5,901,516	\$ 4,503,422

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2016.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved in a previous fiscal year. As a result, assessments were proposed to be passed to local participating Districts based on past premiums or past claims. The District's liability to the KSBIT Workers' Compensation Fund was \$168,190. The District paid \$42,047 of this balance in August 2014 and chose to pay the remaining balance of \$126,142 over a five year period with the first payment beginning August 31, 2015. The District opted to pay its \$142,248 KSBIT Property and Liability Assessment in three installments - \$56,898 due September 15, 2014 and the remaining two equal payments of \$42,674 due September 15, 2015 and 2016. The amount of the liability is recorded in the government wide financial statements. A liability is not reflected in the fund financial statements in accordance with GASB Interpretation No. 6, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2016:

None

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE L – DEFICIT OPERATING/FUND BALANCES (continued)

The following funds had expenditures in excess of revenues at June 30, 2016:

General Fund	447,928
Special Revenue Fund	50,969
Scholarship Fund	767
Clay City Elementary Activity Fund	5,100
Bowen Elementary Activity Fund	489
Powell County Middle School Activity Fund	18,550

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	General Fund	Capital funds request	149,903
FSPK	Debt Service	Bond principal and interest	794,887
Capital Outlay	Debt Service	Bond principal and interest	62,465
General Fund	Special Revenue Fund	KETS match	50,969
Special Revenue Fund	Special Revenue Fund	Intra fund transfers	91,263
School Food Service	General Fund	Indirect cost reimbursement	59,449
Total Transfers			<u>1,208,936</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Inter-fund balances at June 30, 2016 were as follows:

None

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following reconciles June 30, 2016 fund balances as originally reported with that shown in the accompanying financial statements:

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

	<u>General</u>	<u>Special</u>	<u>Construction</u>	<u>Other</u>	<u>Food</u>	<u>Trust</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Fund</u>	<u>Governmental</u>	<u>Service</u>	<u>Fund</u>
Fund Balance/Net Position as originally reported to the Department of Education	299,984	-	2,714,479	12,636	515,822	178,357
Adjustment to Fund Balance/Retained Earnings						
(1) To record additional accounts receivable	120,017	-	-	-	-	
(2) To adjust deferred inflows	-	-	-	-	(55,093)	-
(3) To adjust deferred outflows	-	-	-	-	95,652	-
(4) To adjust net pension liability	-	-	-	-	(488,056)	-
(5) To adjust net fixed assets	-	-	-	-	111,190	-
Fund Balance/Net Position per fund financial statements at June 30, 2016	<u>420,001</u>	<u>-</u>	<u>2,714,479</u>	<u>12,636</u>	<u>179,515</u>	<u>178,357</u>

NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2016:

Kentucky Teacher's Retirement	1,471,763
Health Insurance	2,361,770
Life Insurance	4,291
Administrative Fees	31,613
HRA/Dental/Vision	180,344
Technology	59,485
Debt Service	423,600
Less: Federal Reimbursements	<u>(217,040)</u>
<u>Total</u>	<u>4,315,826</u>
Allocated to:	
General Fund	3,797,910
Debt Service Fund	423,600
School Food Service Fund	<u>94,316</u>
<u>Total</u>	<u>4,315,826</u>

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE R – FUND BALANCE REPORTING

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications include *non-spendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* - fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* - fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2016:

Fund balances	General Fund	Construction Fund	Non-major Funds	Total
Restricted - sick leave	66,115	-	-	66,115
Restricted for future construction/outlay	-	2,714,479	12,636	2,727,115
Committed - site based carryforward	15,376	-	-	15,376
Assigned - purchase obligations	851	-	-	851
Unassigned fund balance	337,659	-	-	337,659
 <u>Total fund balances</u>	 <u>420,001</u>	 <u>2,714,479</u>	 <u>12,636</u>	 <u>3,147,116</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserves fund has not been established. The statement of net position reflects reserves for fixed assets and school food service inventory.

NOTE S – COMMITMENTS

Powell County School District Finance Corporation issued \$3,765,000 in Energy Conservation Revenue Bonds, dated May 1, 2016 and subsequently a \$4,120,000 bond series dated July 1, 2016 for construction and renovation related to various projects within the District. In addition, subsequent to June 30, 2016, \$960,000 in school building refunding revenue bonds were issued to retire prior District bonds dated July 1, 2008.

NOTE T – SUBSEQUENT EVENTS

Subsequent to year end, the District Finance Corporation acquired \$960,000 in refunding revenue bonds in order to retire July 1, 2008 revenue bonds of the District.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE U – NET POSITION RESTATEMENT

The District reclassified beginning position in its government wide financial statements allocating \$356,851 from its government wide balance to business type balance relative to GASB 68 liabilities and related deferrals.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	2,761,000	2,657,000	2,726,008	69,008
Earnings on investments	4,500	4,500	3,146	(1,354)
Other local revenue	95,380	95,380	75,666	(19,714)
Intergovernmental - state	13,537,953	13,409,688	14,894,742	1,485,054
Intergovernmental - federal	150,000	300,000	338,243	38,243
<u>Total revenues</u>	<u>16,548,833</u>	<u>16,466,568</u>	<u>18,037,805</u>	<u>1,571,237</u>
Expenditures:				
Instructional	9,943,672	9,890,820	11,247,797	(1,356,977)
Student support services	720,576	666,250	728,233	(61,983)
Staff support services	614,706	610,216	681,016	(70,800)
District administration	1,214,237	1,100,709	1,199,515	(98,806)
School administration	1,126,031	1,100,755	1,142,467	(41,712)
Business support	291,357	338,993	382,080	(43,087)
Plant operations and management	1,963,259	1,813,551	1,787,113	26,438
Student transportation	1,082,921	991,222	991,113	109
Community services	-	-	5,993	(5,993)
Debt service	71,663	97,218	97,218	-
Contingencies	600,097	411,093	-	411,093
<u>Total expenditures</u>	<u>17,628,519</u>	<u>17,020,827</u>	<u>18,262,545</u>	<u>(1,241,718)</u>
Excess (deficit) of revenues over expenditures	<u>(1,079,686)</u>	<u>(554,259)</u>	<u>(224,740)</u>	<u>329,519</u>
Other financing sources (uses):				
Proceeds from long term lease KISTA	-	-	223,188	223,188
Capital asset acquisitions	-	-	(223,188)	(223,188)
Operating transfers in	139,193	189,903	209,352	19,449
Operating transfers out	(29,496)	(50,952)	(50,969)	(17)
Sale of equipment	-	-	4,935	4,935
<u>Total other financing sources (uses)</u>	<u>109,697</u>	<u>138,951</u>	<u>163,318</u>	<u>24,367</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(969,989)</u>	<u>(415,308)</u>	<u>(61,422)</u>	<u>353,886</u>
Fund Balance - July 1, 2015	<u>969,989</u>	<u>415,308</u>	<u>415,308</u>	<u>-</u>
Fund Balance - June 30, 2016	<u>-</u>	<u>-</u>	<u>353,886</u>	<u>353,886</u>

Notes:

Beginning and ending fund balance do not reflect \$66,115 restricted for sick leave payable.

See notes to financial statements and independent auditor's report.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Earnings on investments	1	3	3	-
Contributions/donations	5,000	74,165	9,193	(64,972)
Intergovernmental - state	1,017,325	1,162,488	1,190,706	28,218
Intergovernmental - indirect federal	<u>2,234,319</u>	<u>2,189,608</u>	<u>2,185,091</u>	<u>(4,517)</u>
 <u>Total revenues</u>	 <u>3,256,645</u>	 <u>3,426,264</u>	 <u>3,384,993</u>	 <u>(41,271)</u>
 Expenditures:				
Instructional	1,881,506	2,033,988	2,029,213	4,775
Student support services	30,646	34,129	35,365	(1,236)
Staff support services	866,878	843,729	836,533	7,196
District administration	76,901	88,099	109,640	(21,541)
School administration	25,924	21,446	21,409	37
Student transportation	120,942	163,922	112,016	51,906
Community service activities	<u>283,344</u>	<u>291,920</u>	<u>291,786</u>	<u>134</u>
 <u>Total expenditures</u>	 <u>3,286,141</u>	 <u>3,477,233</u>	 <u>3,435,962</u>	 <u>41,271</u>
 Excess (deficit) of revenues over expenditures	 <u>(29,496)</u>	 <u>(50,969)</u>	 <u>(50,969)</u>	 <u>-</u>
 Other financing sources (uses):				
Operating transfers in	29,496	120,425	142,232	21,807
Operating transfers out	<u>-</u>	<u>(69,456)</u>	<u>(91,263)</u>	<u>(21,807)</u>
 <u>Total other financing sources (uses)</u>	 <u>29,496</u>	 <u>50,969</u>	 <u>50,969</u>	 <u>-</u>
 Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	 -	 -	 -	 -
 Fund Balance - July 1, 2015	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund Balance - June 30, 2016	 <u><u>-</u></u>	 <u><u>-</u></u>	 <u><u>-</u></u>	 <u><u>-</u></u>

See notes to financial statements and independent auditors's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2016**Employer's Proportionate Share of Net Pension Liability**

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net pension liability	0.3058%	0.1373%	0.3184%	0.1353%
Employer's proportionate share of the net pension liability	-	5,901,516	-	4,391,000
State's proportionate share of the net pension liability	71,163,841	-	65,420,079	-
Employer's covered employee payroll	10,270,913	3,263,083	9,969,802	3,203,164
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	693%	181%	656%	137%
Plan fiduciary net position as a percentage of the total pension liability	42.5%	60.0%	45.6%	66.8%

Employer's Contributions

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	1,471,763	409,810	1,541,642	565,999
Contributions in relation to the contractually required contribution	1,471,763	408,313	1,541,642	565,999
Contribution deficiency (excess)	-	1,497	-	-
District's covered employee payroll	10,270,913	3,263,083	9,969,802	3,203,164
Contributions as a percentage of covered employee payroll	14.33%	12.51%	15.46%	17.67%
Change of benefit terms - None.				
Change of assumptions - \$595,103 for CERS.				

See notes to financial statements and independent auditors's report.

POWELL COUNTY SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION

June 30, 2016

POWELL COUNTY SCHOOL DISTRICTBALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDAt June 30, 2016

	District Activity <u>Multi Year</u>
Asset and resources:	
Cash and cash equivalents	<u>2,280</u>
Total Assets	<u><u>2,280</u></u>
Liabilities and fund balances:	
- Liabilities -	
Unearned revenue activity funds	<u>2,280</u>
Total Liabilities	<u>2,280</u>
- Fund balances -	
Restricted - other	<u>-</u>
Total fund balances	<u>-</u>
Total liabilities and fund balances	<u><u>2,280</u></u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – NONMAJOR SPECIAL REVENUE FUND

For the Year Ended June 30, 2016

	<u>District Activity Multi Year Fund</u>
Revenues:	
From local sources:	
Student activities	41,246
<u>Total revenues</u>	<u>41,246</u>
Expenditures:	
Instruction	28,769
Instructional staff support services	12,477
<u>Total expenditures</u>	<u>41,246</u>
Excess (deficit) of revenues over expenditures	<u>-</u>
Other financing sources (uses):	
Operating transfers in	-
Operating transfers out	-
<u>Total other financing sources (uses)</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>
Fund balance, July 1, 2015	-
Fund balance, June 30, 2016	<u>-</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – OTHER NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2016

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Asset and resources:				
Cash and cash equivalents	<u>4,851</u>	<u>7,785</u>	<u>-</u>	<u>12,636</u>
Liabilities and fund balances:				
- Liabilities -				
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -				
Restricted - sfcc escrow prior	-	1,001	-	1,001
Restricted - sfcc escrow current	<u>4,851</u>	<u>6,784</u>	<u>-</u>	<u>11,635</u>
Total fund balances	<u>4,851</u>	<u>7,785</u>	<u>-</u>	<u>12,636</u>
Total liabilities and fund balances	<u>4,851</u>	<u>7,785</u>	<u>-</u>	<u>12,636</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – OTHER NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Debt Service <u>Fund</u>	<u>Total</u>
Revenues:				
From local sources:				
General real property tax	-	269,463	-	269,463
Intergovernmental - state	<u>212,368</u>	<u>525,424</u>	<u>423,600</u>	<u>1,161,392</u>
<u>Total revenues</u>	<u>212,368</u>	<u>794,887</u>	<u>423,600</u>	<u>1,430,855</u>
Expenditures:				
Debt service				
Purchased professional and technical	-	-	500	500
Principal	-	-	975,000	975,000
Interest	<u>-</u>	<u>-</u>	<u>305,452</u>	<u>305,452</u>
<u>Total expenditures</u>	<u>-</u>	<u>-</u>	<u>1,280,952</u>	<u>1,280,952</u>
Excess (deficit) of revenues over expenditures	<u>212,368</u>	<u>794,887</u>	<u>(857,352)</u>	<u>149,903</u>
Other financing sources (uses):				
Operating transfers in	-	-	857,352	857,352
Operating transfers out	<u>(212,368)</u>	<u>(794,887)</u>	<u>-</u>	<u>(1,007,255)</u>
<u>Total other financing sources (uses)</u>	<u>(212,368)</u>	<u>(794,887)</u>	<u>857,352</u>	<u>(149,903)</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2015	<u>4,851</u>	<u>7,785</u>	<u>-</u>	<u>12,636</u>
Fund balance, June 30, 2016	<u><u>4,851</u></u>	<u><u>7,785</u></u>	<u><u>-</u></u>	<u><u>12,636</u></u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPOWELL COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
General	1,970	2,976	(1,006)	2,575	1,569
Teacher Vending	1,210	1,283	(73)	232	159
Foundation Grants	-	500	(500)	643	143
Student Activities	1,974	1,615	359	2,371	2,730
AP English	2,013	-	2,013	-	2,013
Courtesy Committee	271	280	(9)	9	-
PTO	3,420	2,309	1,111	1,040	2,151
Art Class Fee	235	195	40	80	120
STLP	-	-	-	167	167
AP History	2,155	20	2,135	-	2,135
FMD Classroom	1,391	1,921	(530)	760	230
Humanities Trip	-	-	-	59	59
Science Grant	-	35	(35)	37	2
Student Testing	-	143	(143)	632	489
Christmas Tea	-	-	-	397	397
Graduation/Honors	7,184	3,845	3,339	1,109	4,448
Social Studies Grant	-	-	-	131	131
Key Club	4,078	4,099	(21)	22	1
Senior Breakfast	6,164	4,598	1,566	32	1,598
Substitutes	-	-	-	270	270
Upper Room	-	-	-	49	49
Academic Team	3,593	3,939	(346)	346	-
Student Parking	95	-	95	-	95
Library	961	561	400	45	445
Spanish	1,836	1,462	374	175	549
Entrepreneurship	11,055	10,618	437	1,634	2,071
Home Economics	70	-	70	253	323
Registration Fees	5,538	4,069	1,469	-	1,469
Prom	7,177	6,376	801	3,687	4,488
Senior Class	9,885	9,832	53	1,008	1,061
Class of 2017	-	-	-	152	152
Band	17,377	16,229	1,148	74	1,222
FBLA	12,670	10,969	1,701	542	2,243
Ecology Club	26,702	26,731	(29)	287	258
Youth Services Center	1,550	2,398	(848)	4,661	3,813
Snack Shack	10,418	11,012	(594)	669	75
Chorus	-	79	(79)	137	58
Yearbook	8,477	5,349	3,128	11,548	14,676
Pirate Press	-	-	-	397	397
Counselors	695	393	302	575	877
Class of 2016	13,357	15,655	(2,298)	2,479	181
Online Gaming	-	-	-	1	1
Gearup Projects	1,053	1,023	30	-	30
Ky Youth Association	348	318	30	1,098	1,128

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

POWELL COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)

For the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
Locker Rental	15	-	15	-	15
Beta Club	980	805	175	-	175
Drama Club	-	-	-	851	851
FCA	-	322	(322)	729	407
FFA	8,977	9,534	(557)	1,322	765
FCCLA	10,650	10,233	417	4,225	4,642
Hometown Scholarship	-	360	(360)	360	-
FEA Club	-	-	-	145	145
Sew What	1,536	1,000	536	2,840	3,376
Pep Club	-	108	(108)	122	14
TSA	-	8	(8)	14	6
Special Olympics	1,650	1,062	588	136	724
HOSA	18	64	(46)	57	11
Construction Class	1,450	249	1,201	655	1,856
Skills Club	-	46	(46)	52	6
HOSA Competition	-	-	-	8	8
Gen. Athletics	120,330	124,142	(3,812)	10,403	6,591
Baseball	16,526	22,151	(5,625)	6,740	1,115
Boys Basketball	7,003	11,381	(4,378)	5,218	840
Girls Basketball	20,044	18,630	1,414	3,693	5,107
Cheerleaders - Varsity	15,258	12,896	2,362	45	2,407
Concessions	24,411	23,713	698	196	894
Football	24,671	22,517	2,154	1,589	3,743
Boys Golf	6,348	5,456	892	-	892
Girls Golf	4,277	3,300	977	2,855	3,832
Softball	10,539	12,419	(1,880)	3,352	1,472
Track	2,600	252	2,348	895	3,243
Soccer	1,850	1,216	634	719	1,353
Cross Country	13,478	10,284	3,194	328	3,522
Volleyball	10,824	8,435	2,389	516	2,905
4th and 5th Grade	9,901	4,832	5,069	341	5,410
Athletic Field Trip	-	-	-	1	1
Football Support	14,837	14,079	758	3,037	3,795
Xteam	8,501	7,046	1,455	1,742	3,197
Student Field Trips	1,829	2,225	(396)	395	(1)
Band Trip	6,536	6,257	279	8	287
Band Parents Organization	14,699	15,584	(885)	2,824	1,939
Gen Athletics/Extras	-	-	-	286	286
<u>Sub-total</u>	<u>524,660</u>	<u>501,438</u>	<u>23,222</u>	<u>97,082</u>	<u>120,304</u>
Less: Interfund transfers	<u>69,886</u>	<u>69,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>454,774</u>	<u>431,552</u>	<u>23,222</u>	<u>97,082</u>	<u>120,304</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCEMIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2016

	<u>Powell County Middle School</u>	<u>Bowen Elementary</u>	<u>Clay City Elementary</u>	<u>Stanton Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>					
Activity funds	160,396	18,242	29,799	47,495	255,932
<u>EXPENDITURES:</u>					
Activity funds	<u>178,946</u>	<u>18,731</u>	<u>34,899</u>	<u>44,291</u>	<u>276,867</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	(18,550)	(489)	(5,100)	3,204	(20,935)
Fund Balance, July 1, 2015	<u>46,049</u>	<u>9,996</u>	<u>13,563</u>	<u>9,762</u>	<u>79,370</u>
Fund Balance, June 30, 2016	<u>27,499</u>	<u>9,507</u>	<u>8,463</u>	<u>12,966</u>	<u>58,435</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>2016 Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	7760005 15	N/A	74,426
	10.553	7760005 16	N/A	237,753
				312,179
School Lunch Program	10.555	7750002 16	N/A	817,428
	10.555	7750002 15	N/A	251,547
				1,068,975
Summer Food Service Program for Children	10.559	7690024 15	N/A	979
	10.559	7740023 15	N/A	9,365
				10,344
Passed through State Department of Agriculture:				
National School Lunch Program Non-Cash Commodities	10.555	006 0100	N/A	70,752
<u>Total Child Nutrition Cluster</u>				1,462,250
Passed through State Department of Education:				
Fruit and Vegetable Program	10.582	7720012 15	N/A	9,411
Fruit and Vegetable Program	10.582	7720012 16	N/A	32,637
				42,048
Passed through State Department of Education:				
State Administrative Expense Funds	10.560	7700001 15	N/A	3,423
Child Nutrition Discretionary Grants Limited Availability	10.579	7840027 14	N/A	24,298
				27,721
Passed through Powell County Fiscal Court				
Schools and Roads Grants To States	10.665	505X	N/A	13,631
<u>Total U.S. Department of Agriculture</u>				1,545,650
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title 1 Grants to Local Education Agencies	84.010	310B	N/A	864,177
	84.010	310A	N/A	185,145
	84.010	310AM	N/A	2,970
	84.010	310BM	N/A	5,876
<u>Total Title I</u>				1,058,168
Migrant Education - State Grant Program	84.011	311B	N/A	85,103
	84.011	311A	N/A	10,348
				95,451

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>2016 Program Expenditures</u>
- Special Education Cluster -				
Special Education - Grants to States	84.027	337B	N/A	404,409
	84.027	337A	N/A	105,858
	84.027	3374P	N/A	4,748
				<u>515,015</u>
Special Education - Preschool Grants	84.173	343A	N/A	92
	84.173	343B	N/A	31,076
				<u>31,168</u>
Total Special Education Cluster				<u>546,183</u>
Vocational Education - Basic Grants to States	84.048	348B	N/A	31,458
	84.048	348AA	N/A	1,016
				<u>32,474</u>
Title VI				
Rural Education	84.358	350B	N/A	42,383
	84.358	350A	N/A	6,961
				<u>49,344</u>
Improving Teacher Quality State Grants	84.367	401B	N/A	157,569
	84.367	401A	N/A	11,871
				<u>169,440</u>
Race to the Top	84.413A	4521	N/A	<u>2,314</u>
Passed through Berea College:				
Gaining Early Awareness and Readiness for Undergraduate Programs (GEARUP)	84.334A	379AC	N/A	1,075
	84.334A	379BC	N/A	55,000
	84.334A	379BG	N/A	98,611
	84.334A	379AG	N/A	29,405
	84.334A	379BP	N/A	49,655
				<u>233,746</u>
<u>Total U.S. Department of Education</u>				<u>2,187,120</u>
<u>Appalachian Regional Commission</u>				
Passed through Kentucky Science and Technology Corporation:				
Appalachian Higher Education Network (KY AHED)	23.001	6888B	N/A	<u>4,051</u>
<u>Total Federal Awards Expended</u>				<u>3,736,821</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Powell County School District, under programs of the federal government for the year ended June 30, 2016 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Powell County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Powell County School District.

Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Powell County School District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Note 3 – Non-Monetary Assistance

Non-monetary assistance CFDA #10.555, \$70,752, is reported in the schedule at the fair value of the food donations disbursed.

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
Members of Powell County Board of Education
Stanton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Powell County School District's basic financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Powell County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Powell County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Powell County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Powell County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Powell County School District, in a separate letter dated October 27, 2016. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 27, 2016

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To Board Members
Powell County School District

Report on Compliance for Each Major Federal Program

We have audited Powell County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Powell County School District's major federal programs for the year ended June 30, 2016. Powell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Powell County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Powell County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Powell County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Powell County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Powell County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Powell County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 27, 2016

POWELL COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2016

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2016

- SUMMARY OF AUDIT RESULTS -

Summary of Audit Results

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Powell County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education -
Title I, CFDA number 84.010
 - U.S. Department of Agriculture
 - Passed through State Departments of Education and Agriculture -
- Child Nutrition Cluster -
School Lunch and Breakfast Program, Summer Food Service
CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. The auditee qualified as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

Findings Related to the Financial Statements

- NONE -

Findings and Questioned Costs for Federal Awards

- NONE -

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

MANAGEMENT LETTER

Powell County Board of Education
Stanton, Kentucky

In planning and performing our audit of the financial statements of Powell County School District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 27, 2016, contains our report on the District's internal control structure. This letter does not affect our report dated October 27, 2016, on the financial statements of the Powell County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, cursive script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 27, 2016

POWELL COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2016**Follow-up on Prior Year Comments**

No prior year comments

Current Year Comments

- Stanton Elementary Activity Fund – All disbursement transactions should be accompanied by adequate supporting documentation. We noted one check transaction to Fifth Third Bank, \$530.23 without supporting documentation. Per activity fund clerk, the cash was used for school activity purchases including Family Dollar Store, Positive Promotions and Kroger. However, no receipts were provided.
- Powell County High School Activity Fund – State prescribed inventory control forms should be completed related to purchases intended for resale. We noted transactions related to the activity fund's after school program for resales were not supported by state prescribed forms indicating reconciliation, inventory and profit.